

California State Senate

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COMMITTEE
ON
BUDGET AND FISCAL REVIEW
SUBCOMMITTEE NO. 2 ON
RESOURCES, ENVIRONMENTAL PROTECTION,
ENERGY, AND TRANSPORTATION

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ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

**SENATOR
JOE SIMITIAN
CHAIR**

AGENDA

March 18, 2009
2:30 p.m.
Room 2040

2009-10 Third Extraordinary Session

Informational Hearing on Federal Stimulus Funds:

- SBx3 27 – Safe Drinking Water
- ABx3 20 – Transportation

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SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Subcommittee #2 on Resources, Environmental Protection, Energy,
and Transportation
Senator Joe Simitian, Chair

Bill No:	Senate Bill 27 (Third Extraordinary Session)
Author:	Negrete-McLeod
As Amended:	March 11, 2009
Consultant:	Seija Virtanen
Fiscal:	Yes
Hearing Date:	March 18, 2009

Subject: Clean drinking water and wastewater: changes to statute.

Summary: Federal stimulus funds for clean drinking water and wastewater.

Proposed Law: This bill revises statute to ensure that federal stimulus funds for clean drinking water and wastewater can be allocated within federal deadlines and specifies expenditure of the funds. Specifically, this bill would do the following:

1. Allow the Department of Public Health to expend federal funds received from the American Recovery and Reinvestment Act of 2009 (ARRA) according to the guidelines of that act.
2. Limit Department of Public Health grants from the ARRA funds to \$10 million per project.
3. Exempt ARRA funded projects for urban water suppliers from certain planning requirements specified in current state law.
4. Include grants in the definition of financial assistance for the State Water Pollution Control Revolving Fund, as well as allow for loan forgiveness to the extent authorized by federal law.
5. Declare an emergency to take effect immediately.

Background – Existing State Law: Existing state law establishes the Safe Drinking Water State Revolving Fund to be administered by the Department of Public Health. The fund is continuously appropriated. The current maximum grant is \$1 million per project.

Existing state law creates a grant and loan program for urban water suppliers, with specified planning requirements. These urban water management plans are submitted to the Department of Water Resources and apply to programs or projects for surface water and groundwater storage, recycling, desalinization, water conservation, water supply reliability, and water supply augmentation.

Existing state law establishes a continuously appropriated State Water Pollution Control Revolving Fund to provide financial assistance to municipalities for federal Clean Water Act implementation. The fund is administered by the State Water Resources Control Board.

Comments: The federal stimulus act has a short timeframe for distribution of the funds, or the dollars revert back to the federal government. The federal law establishes a goal of using at least 50 percent of the funds for activities that can be initiated by no later than June 17, 2009. All of the funds for water projects must be encumbered by February 17, 2010, and all projects must be started no later than February 2010.

California has about 8,000 public water systems. The Department of Public Health Safe Drinking Water Program provides loans and grants to these systems for infrastructure--mainly construction of water treatment plants and systems, as well as water distribution. The Department of Public Health has a "Project Priority Listing" that is used to determine the order in which projects are funded. The Department of Public Health has already submitted a placeholder application to the federal government.

The federal stimulus requires California to issue 50 percent of the funds via grants ("principal forgiveness"). State law limits "grant" funding (versus "loan" funding) to public systems that serve disadvantaged communities where median income is less than 80 percent of statewide median income. State law does not allow for a forgiveness of loans nor does it provide for a negative interest rate for other water systems. Presently, the "grant" amount in state law is \$1 million.

California has 459 urban water suppliers who provide water to 3,000 or more customers, or that provide over 3,000 acre-feet of water annually. Current statute requires that urban water suppliers submit a plan to the Department of Water Resources showing how they will: (1) implement Best Management Practices/ Demand Management Measures (BMPs/DMMs); (2) impact groundwater; (3) create a Water Shortage Contingency Plan; (4) create a Recycled Water Plan; (5) impact water quality and water supply reliability; (6) and ensure water service reliability. These plans were due in 2005 and the update is due in 2010.

Of the 459 urban water suppliers in California 408 have completed their urban water management plans. The Department of Water Resources has reviewed 345 of these plans and found that 187 of them are complete. There is no penalty for not submitting an urban water management plan.

Fiscal Effect: California will receive a total of \$443 million in federal funds. These federal funds will not replace general fund.

\$160 million will be received for drinking water projects that can begin construction before February 17, 2010.

\$283 million will be received for wastewater treatment projects.

Support: None on file.

Opposed: None on file.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

Subcommittee #2 on Resources, Environmental Protection, Energy and Transportation *Senator Joe Simitian, Chair*

Bill No:	AB 20xxx
Author:	Bass
As Amended:	March 17, 2009, draft amendments - RN 09 10163
Consultant:	Brian Annis
Fiscal:	Yes
Hearing Date:	March 18, 2009

SUBJECT

Federal Stimulus for Transportation: This bill revises statute to ensure that federal stimulus funds for transportation can be allocated within federal deadlines and specifies expenditure of the funds.

AB 20XXX, as amended January 7, 2009, is a budget spot bill by Assembly Member Evans. Proposed draft amendments relate to transportation and would rewrite the bill to implement the federal American Recovery and Reinvestment Act (ARRA). Speaker Bass would be the author.

BACKGROUND—EXISTING STATE LAW

Existing state law establishes the state's priorities for the State Highway Account funds with an additional goal of maximizing federal funds. Federal funds are also generally appropriated with this same prioritization in mind. The sequence of priorities (per State and Highways Code Section 167) is as follows:

1. Operation, maintenance, and rehabilitation of the state highway system.
2. Safety improvements where physical changes, other than adding additional lanes, would reduce fatalities and the number and severity of injuries.
3. Transportation capital improvements that expand capacity or reduce congestion, or do both.
4. Environmental enhancement and mitigation programs.

Consistent with the above existing law, the State's share of federal funding would be allocated first to the State Highway Operation and Protection Program (SHOPP) – priorities #1 and #2 above, and second (to the extent funds remain) to the State Transportation Improvement Program (STIP) – issue #3 above. The federal funds designate \$77 million for transportation enhancement – issue #4 above. If no change is made to current law, the allocation between SHOPP and STIP would be determined by the California Transportation Commission (CTC). The STIP program is adopted by the CTC and 75 percent of STIP funds are programmed in the regional program (projects selected by regions) and 25 percent of STIP are programmed in the interregional

program (projects selected by Caltrans). While statute defines general priorities, this bill would provide a specific allocation of the new federal stimulus funds.

BACKGROUND-- FEDERAL STIMULUS REQUIREMENTS

The American Recovery and Reinvestment Act (ARRA) includes \$27.5 billion in formulaic funds for highways and roads, of which, California's share is \$2.6 billion. The federal act directs about \$1.7 billion (or 67 percent) to the state government, and about \$770 million (or 30 percent) to regional transportation agencies. The money distributed to the regions is allocated using the Surface Transportation Program (STP) formula. Under the federal act, states have flexibility to direct a higher portion of ARRA funds to regional agencies. The federal act requires that 3 percent of the funds be used for "Transportation Enhancement," which are projects such as bicycle and pedestrian paths. The ARRA funds must be expended for projects consistent with Title 23 of the United States Code. Projects are submitted to the Federal Highway Administration (FHWA) for approval.

DESCRIPTION OF BILL

This bill revises statute to ensure that federal stimulus funds for transportation can be allocated within federal deadlines and specifies expenditure of the funds. Specifically, this bill would do the following:

- 1. Appropriate federal stimulus transportation funds.** This bill would appropriate the \$2.6 billion in ARRA funds that are available to California for highways and roads through formulaic distribution. The ARRA also includes about \$1.1 billion for California in the area of transit capital funding; however, those funds are directly allocated to locals by the federal government and no state legislation is required. The California Department of Transportation (Caltrans) will also apply for ARRA competitive grants at a later date when the federal guidelines are available – existing budget authority should be sufficient for any future ARRA funds that the state receives from competitive programs.
- 2. Short federal timeline for funding obligation.** The ARRA requires that \$900 million of the funds be obligated within 120 days, or by July 2009. All of the remaining funds must be obligated within one year, or by March 2010. Obligation occurs when the state has a ready-to-go project that is programmed and approved by the Federal Highway Administration. The federal program is use-it-or-lose-it, so California could lose any funds not obligated. The allocation of funds in this bill is intended to minimize the chance that California would lose any ARRA funds, by allocating money to programs where projects are ready to go and where the project approval process is relatively rapid.
- 3. ARRA funds for regional transportation agencies.** This bill would revise current law to direct \$1.6 billion in federal funds to regional transportation agencies (of the \$2.6 billion total). The federal act, itself, directs about \$770 million to regional transportation agencies to be allocated based on the Surface Transportation Program (STP) formula. This bill would increase the amount of funds regions receive from ARRA by shifting about \$800 million in funds otherwise available for the

SHOPP and STIP programs. The regional share would grow from 30 percent of ARRA funds to 62.5 percent and all funds would be allocated using the STP formula. As noted above, the regions program 75 percent of funds in the STIP, so the shift to regional project selection is not as pronounced as the ARRA shift might suggest. The Administration and a coalition of local governments believe this shift will aid the state in meeting the federal deadlines, because the STP process is quicker and more flexible than the STIP process.

4. **ARRA funds for cities and counties.** This bill includes legislative intent language that at least 40 percent (which would be about \$640 million) of the funds apportioned to regional agencies be sub-allocated to cities and counties. This sub-allocation will also speed obligation and expenditure as cities and counties indicate they also have federally-eligible projects ready to go.
5. **ARRA funds the SHOPP program / State Proposition 1B loans.** This bill would allocate \$935 million for State Highway Operation and Protection Program (SHOPP) projects. However, up to \$310 million of this \$935 million would initially be available as a cashflow loan to keep federally-eligible Proposition 1B projects moving. The national and state fiscal situation has made it difficult for the Treasurer to sell general obligation bonds, resulting in a stoppage of some Prop 1B projects. Technically, up to \$310 million in federal funds would be applied to Prop 1B projects through transfer of that funding to Prop 1B accounts and payment to contractors. When Prop 1B bonds can be sold, the bond proceeds would repay this loan through transfer to the State Highway Account for use in the SHOPP program.
6. **ARRA funds for local Proposition 1B loans.** ARRA funds allocated to regions would also be available for federally-eligible Prop 1B projects with the locals “repaid” with the future Prop 1B dollars directed to other projects in the same region.
7. **ARRA funds for Transportation Enhancement.** The ARRA designates \$77 million of the \$2.6 billion total for California for transportation enhancement projects such as bicycle and pedestrian paths and landscaping. This bill would split the ARRA funds with 62.5 percent for regions and 37.5 percent for the State. Priority for programming and allocation would be given to projects that commit to employ members of a conservation corps program. The next (and lower) priority would be for those projects that provide facilities for pedestrians and bicyclists. Any funds remaining could be allocated to other projects that meet federal criteria.
8. **Use-it-or-lose-it provisions.** This bill contains use-it-or-lose-it provisions on funds allocated to regional transportation agencies as well as cities and counties, such that if a local cannot meet the federal deadlines, the funding will be allocated to another local entity. This would help ensure no funds are lost by California to be re-allocated by the federal government to other states.
9. **Reporting requirements for ARRA funds.** This bill provides some flexibility to the Administration on the specific budget scheduling of ARRA funds, and directs the Director of Finance to report to the Legislature on the initial scheduling of funding. Any further changes would require 30-day advance notification to the Legislature.

The Administration is also required to provide periodic reports on the status of the ARRA projects.

FISCAL IMPACT

This bill would appropriate about \$2.6 billion in federal economic stimulus funds for transportation. About \$1.6 billion would be directed to regional transportation agencies and cities and counties. About \$963 million would be directed to the state program with the majority for the SHOPP. These figures include \$49 million in Transportation Enhancement funding for regional entities and \$28 million in Transportation Enhancement funding for State projects.

COMMENTS

This bill seeks to strike a balance among several goals: maximize federal funds through meeting all federal obligation deadlines; provide a significant spending boost to the State Highway and Operation Protection Program (SHOPP); provide a short-term cashflow loan to eligible Proposition 1B projects halted due to delayed bond sales; and geographic balance to ensure jobs and transportation improvements in all regions of the state. Staff understands that the language was developed in consultation with the local representatives, the Administration, and other interested parties in an attempt to achieve a consensus on the allocation of ARRA funds to best address those multiple goals.

POSITIONS

Support:

None on file.

Opposition:

None on file.